

# Fitch Ratings

One State Street Plaza  
New York, NY 10004

T 212 908 0500 / 800 75 FITCH  
www.fitchratings.com

February 17, 2005

Mr. Michael W. Hill  
Director of Financial Services  
City of Lynchburg, VA  
900 Church Street  
Lynchburg, VA 24504

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FEB 22 2005

FINANCE DEPT. DIRECTOR

Dear Mr. Hill:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed on the attached Notice of Rating Action.

Ratings assigned by Fitch are based on documents and information provided to us by issuers, obligors, and/or their experts and agents, and are subject to receipt of the final closing documents. Fitch does not audit or verify the truth or accuracy of such information.

It is important that Fitch be provided with all information that may be material to its ratings so that they continue to accurately reflect the status of the rated issues. Ratings may be changed, withdrawn, suspended or placed on Rating Watch due to changes in, additions to or the inadequacy of information.

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The assignment of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement or other filing under U.S., U.K., or any other relevant securities laws.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Sincerely,

*Pamela K. Clayton*

Pamela K. Clayton  
Managing Director  
U.S. Public Finance

PKC/tv

Enc: Notice of Rating Action  
(Doc ID: 4289)

## Notice of Rating Action

<u>Bond Description</u>	<u>Par Amount</u>	<u>Rating Type</u>	<u>Action</u>	<u>Rating</u>	<u>Outlook/ Watch</u>	<u>Eff Date</u>	<u>Notes</u>
Lynchburg (VA) GO public improv rfdg bonds ser 2005	\$38,660,000	Long Term	New Rating	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO bonds		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv & rfdg bonds ser 1999		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv BANs ser 2004		Short Term	Affirmed	F1+	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv bonds ser 2000		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv bonds ser 2001		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv bonds ser 2003A		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv bonds ser 2003B		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	
Lynchburg (VA) GO public improv bonds ser 2004		Long Term	Affirmed	AA	RO:Sta	08-Feb-2005	

**Key:** RO: Rating Outlook, RW: Rating Watch; Pos: Positive; Neg: Negative; Sta: Stable; Evo: Evolving

Tax Supported  
New Issue

## Lynchburg, Virginia

### Ratings

#### New Issue

General Obligation Public Improvement  
Refunding Bonds, Series 2005..... AA

#### Outstanding Debt

General Obligation Bonds ..... AA  
Bond Anticipation Notes ..... F1+  
Rating Outlook ..... Stable

### Analysts

Joseph D. Mason  
1 703 245-3068  
joseph.mason@fitchratings.com

Nelsie L. Smith  
1 703 245-3065  
nelsie.smith@fitchratings.com

### Issuer Contact

Michael W. Hill  
Director of Finance  
1 434 847-1307

### New Issue Details

Approximately \$38,660,000 General Obligation Public Improvement Refunding Bonds, Series 2005, are scheduled for negotiated sale the week of Feb. 14, with Davenport & Co., LLC as lead manager.

**Security:** The bonds are general obligations of the city, for which its full faith and credit are irrevocably pledged.

**Purpose:** Bond proceeds will be used to refinance outstanding general obligation bonds maturing from 2008–2030 without extension of final maturity. The city estimates it will generate net present value savings equal to 5% of refunding par.

### ■ Outlook

The 'AA' rating reflects the City of Lynchburg's strong financial management, moderate debt levels, and mature economy. Solid reserve levels were maintained during the recession, the result of prompt and effective budget-balancing actions. Manufacturing remains an important job producer, and development efforts are centered on attracting higher paying goods-producing employment to city industrial parks. Future debt needs are manageable, and the debt burden should remain moderate given the rapid amortization of outstanding bonds and the availability of user fees to support a portion of the city's general obligation bonds.

### ■ Rating Considerations

Located in central Virginia, Lynchburg has effectively dealt with many of the challenges that face economies historically focused on manufacturing while maintaining its role as a retail center for the large surrounding area. Lynchburg also serves as a regional provider of higher education and health care services. The unemployment rate equaled 4.1% as of November 2004, a decrease from the 6% levels reported in 2002 and 2003, which reflected the loss of a major employer. Downtown and riverfront redevelopment activity continues to show momentum, with significant public and private investment yielding new residential, arts and entertainment, and civic facilities. Per capita income is below average, equaling 74.2% of the state's and 78.8% of the nation's figures.

Financial management is strong. The city has formalized policies regarding fund balance and debt affordability, along with quarterly reporting, revenue tracking, and midyear budget reviews, better ensuring stable financial operations in the future. Reserve levels are strong and exceed the adopted policy minimum. As of June 30, 2004, the city's undesignated general fund balance equaled \$16.8 million, or 12% of general fund expenditures and transfers out. Midyear estimates for fiscal 2005 indicate balanced operations, with reduced personal property values offset by robust sales and meals tax receipts. Budget-balancing actions by the commonwealth for fiscal 2005 generated additional revenues for Virginia local governments, primarily for schools, forestalling the city's need for a property tax rate increase. The fiscal 2005 tax rate remains at \$1.11 per \$100 of assessed valuation for the ninth straight year. City enterprise funds are all healthy, aided by steady rate increases.

Debt levels are manageable at \$1,785 per capita and 3.1% of full market value, and outstanding debt is amortized rapidly. Capital needs outside of mandated storm and sanitary sewer separation are focused on maintenance of existing infrastructure. The five-year, \$191 million

February 9, 2005

## General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2000	2001	2002	2003	2004
Revenues	108,283	112,954	115,524	117,968	122,197
Expenditures	79,422	77,364	78,647	129,060	133,228
Net Change	28,861	35,590	36,877	(11,093)	(11,031)
Transfers In	3,704	823	730	1,697	927
Other Sources	0	0	0	15,649	19,063
Transfers Out	0	(10,768)	(4,799)	(6,977)	(7,065)
Other Uses	(32,785)	(30,635)	(31,462)	0	0
Net Income	(220)	(4,990)	1,347	(724)	1,894
Total Fund Balance	27,377	21,235	22,582	21,858	23,763
As % of Expenditures, Transfers Out, and Other Uses	24.4	17.9	19.7	16.1	16.9
Unreserved Fund Balance	26,068	20,742	22,143	20,913	22,830
As % of Expenditures, Transfers Out, and Other Uses	23.2	17.5	19.3	15.4	16.3
Undesignated Fund Balance	10,345	16,942	18,042	17,104	16,746
As % of Expenditures, Transfers Out, and Other Uses	9.2	14.3	15.7	12.6	11.9

Note: Numbers may not add due to rounding.

capital improvement program for fiscal years 2005–2009 addresses capital needs primarily related to transportation, schools, and the water and sewer utility system. Sewer separation work outside the downtown area has reduced overflow discharges by approximately 79%. However, the costliest portion of the project

remains, and progress has been slowed by a lack of grant funding. The city continues to comply with its maintenance of effort requirements under a 1994 special consent order. Lynchburg expects to bring \$19 million of general obligation bonds to market this summer to finance general government, schools, and utilities projects.

## Debt Statistics

(\$000)

This Issue	38,660
Outstanding Debt*	80,587
Total Direct Debt	119,247

## Debt Ratios

Direct Debt per Capita (\$)**	1,785
As % of Full Market Value†	3.1

\*Excludes bonds to be refunded from proceeds of this issue and self-supporting general obligation bonds that are repaid from city enterprise revenues. \*\*Population: 66,800 (2003 estimate). †Full market value: \$3,915,725,000 (2004).

## Strengths

- Strong financial performance and management, with institution of formal policies.
- Regional retail and employment center for the four-county surrounding area.
- Moderate debt levels, with manageable future capital plans.

## Risks

- Below-average income levels.
- Above-average presence of manufacturing jobs.